

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7708

BILL NUMBER: HB 1009

NOTE PREPARED: Feb20, 2005

BILL AMENDED: Feb 17, 2005

SUBJECT: School Vouchers and No Child Left Behind Act.

FIRST AUTHOR: Rep. Behning

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill provides an Income Tax Credit for education expenditures for children enrolled in K-12 at a school of choice. It defines school of choice to be: (1) a nonpublic school; or (2) a public school, if it is not the public school where the child has legal residence. The bill limits the credit amount per taxpayer. The bill also makes the credit refundable. It requires the Department of Education to withhold state tuition support for each qualifying dependent.

This bill creates a scholarship for children to attend a school of choice if the child's resident public school is either required to provide supplemental educational services for the student or to institute corrective action under the No Child Left Behind Act. It requires the Department of Education to withhold from state tuition support an amount equal to the school's General Fund amount (state and local) for each scholarship student.

Effective Date: July 1, 2005.

Summary of Net State Impact: (Revised) The net fiscal impact for FY 2006 through FY 2010 from the School of Choice Tax Credit is reported in the table below. The table shows the potential revenue loss for the tax credits along with the reduced tuition support expenditures which would offset the revenue loss from the credits based on assumptions provided below.

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2020
Tax Credit Revenue Loss	0	(11.4 M)	(17.1 M)	(63.2 M)	(69.0 M)	(241.8 M)
Offset from Reduced Tuition Support Expenditures	33.8 M	33.8 M	33.8 M	63.2 M	69.0 M	241.8 M
Net Gain (Loss)	33.8 M	22.4 M	16.7 M	0	0	0

Explanation of State Expenditures: (Revised) *Tuition Support Offset:* The bill requires DOE to count students who qualify a taxpayer to claim the tax credit in the ADM of the school corporation in which that student has legal settlement for purposes of tuition support distributions. The school corporation's tuition support distribution would be reduced by an amount equal to per student tuition support (excluding special education grants) multiplied by the number of students qualifying taxpayer's for the tax credit. Under the bill, tuition support could be withheld as early as FY 2006.

In CY 2005, per student tuition support (excluding special education grants) ranged from about \$630 to \$9,669, with the average for all school corporations equal to about \$3,380. The amount of tuition support withheld for students who qualify a taxpayer for the initially is dependent on the number of public school students who leave their current school corporation and transfer to a "school of choice" (defined as a nonpublic school or a public school where they do not have legal settlement.) For example, if one assumes that 1% of public school students in 2005 commence one of the qualifying enrollment options described above and incur qualified educational expenses, the amount of tuition support withheld could potentially total about \$33.8 M annually. The amount of estimated tuition support would remain in the state General Fund, potentially as early as FY 2006 if students qualify a taxpayer for the tax credit in tax year 2006 and transfer to a "school of choice" as early as the fall of 2005.

The bill requires that the DOR inform DOE of the number of students who qualify a taxpayer for the tax credit applicable to students who were eligible for public school enrollment in 2005, but were not enrolled in public school. The DOR also must inform DOE of the amount of tax credits granted for these students by December 1st of each year. DOE will reduce the amount of state tuition support it distributes to schools for the next 6 months (January to June) in the amount of the state credits taken and reduce the calendar year cap proportionately. Therefore the revenue loss of the tax credits will be repaid from the amount appropriated for the state tuition support. All schools will receive a proportionately reduced amount of state tuition support. The offset from reductions in tuition support for FY 2006 through FY 2010 relating to the School of Choice Tax Credit, and the estimated offset in FY 2020 once the tax credit is fully implemented, is reported in the table below.

Fiscal Year	Tuition Support Reduction
2006	33.8 M
2007	33.8 M
2008	33.8 M
2009	63.2 M
2010	69.0 M
2020	241.8 M

Freedom to Achieve Scholarship Program: The bill creates a scholarship program for students enrolled in a public school if the school was required to provide supplemental education services under the federal No Child Left Behind Law, “NCLB . Based on the Department of Education 2005 data, students in 51 schools could qualify for the scholarship. The student could attend a different public school or a non public school that met the adequate yearly progress requirements in NCLB . The student would continue to be counted in the school of legal settlement and the scholarship would be equal to either state support, excluding special education, and property tax dollars per student the sending school receives or the tuition costs at the receiving school. The state aid the receiving school receives would be reduced by the greater of the scholarship amount or the state support per student. For CY 2005, the state tuition support, excluding special education, and property tax levies ranged from \$3,147 per student to \$12,482 per student with the average of \$5,337. If the tuition costs of the receiving school were less than the sending school revenue, then the sending school would be able to keep a portion of their property tax levy for the student. The effective date of the section is July 1, 2005 and the Department of Education has to develop an application and parents must apply before July 15 so the first year of the scholarship program would probably be the 2006-07 school year.

Since the scholarship students were in the student count the year before and will continue to be counted in the school of legal settlement, the scholarship should not increase the state costs. Local schools would lose some or all their funding for the student depending on the tuition cost of the receiving school but they would also have reduce expenditures for educating those students.

Department of State Revenue (DOR): DOR will incur additional expenses to revise tax forms, instructions, and computer programs to incorporate these two tax credits. In addition, the DOR will have to track and report taxpayers claiming the tax credits, and the dependents for whom these taxpayers make qualified education expenditures, to the Department of Education for purposes of tuition support reductions. The bill also requires DOR to develop a process and create forms which will allow the taxpayer to assign their tax credits to the school in which their dependents are enrolled.

Explanation of State Revenues: (Revised) *School of Choice Tax Credit:* The bill establishes a refundable Adjusted Gross Income (AGI) Tax credit for qualified education expenditures made in 2006 and each year thereafter by a taxpayer whose dependent is enrolled in: (1) a nonpublic school; or (2) a public school other than the dependent’s school of legal settlement. However, the tax credit may not be claimed until tax year 2008 and after for qualified education expenditures in those years, if the taxpayer’s dependent was eligible to be

enrolled in public school in 2005, but was not enrolled in public school in 2005. Thus, the tax credit would be taken by two continuing groups of taxpayers: (1) taxpayers whose dependent's would otherwise attend public school but elect one of the enrollment options described above as a result of the credit; and (2) taxpayer's whose dependent's would attend nonpublic school regardless of the tax credit. Each taxable year, the credit may be claimed for qualified education expenditures made for the school year ending during the taxable year. The credit is refundable. Column 1 in the table below reports the maximum allowable credit amount that a taxpayer may claim for qualified education expenditures, except that Column 2 reports the maximum allowable credit amount for a taxpayer whose dependent was enrolled in a nonpublic school in 2005.

Tax Year	Column 1	Column 2
2006	1,000	0
2007	1,000	0
2008	1,500	500
2009	1,500	500
2010	2,000	1,000
2011	2,000	1,000
2012	2,500	1,500
2013	2,500	1,500
2014	3,000	2,000
2015	3,000	2,000
2016	3,000	2,500
2017	3,000	2,500
2018	3,000	3,000
2019 and after	3,000	0

The estimated annual revenue loss from the credit is summarized in the table below.

Fiscal Year	Credits
2007	11.4 M
2008	17.1 M
2009	63.2 M
2010	69.0 M

2020	241.8 M
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The estimated revenue loss assumes that 1% of current public school students undertake enrollment options that qualify for the tax credit. It is estimated that about 5,600 taxpayers would be able to claim tax credits for these students. It also assumes that the nonpublic enrollment that has historically occurred regardless of the tax credit totals about 134,000 annually. It is estimated that about 75,000 taxpayers would be able to claim tax credits for these students. The estimate also assumes that taxpayers will claim the maximum credit. The estimated revenue loss grows annually as the maximum allowable credit increases and the historic nonpublic student group qualifies for the tax credit. The FY 2007 to FY 2010 revenue loss estimates apply to tax credits claimed during tax years 2006 through 2009. The FY 2020 revenue loss estimate applies to tax credits claimed during tax year 2019 once the credit is fully implemented.

Explanation of Local Expenditures: *See Explanation of State Expenditures*

Explanation of Local Revenues: *See Explanation of State Expenditures*

State Agencies Affected: Department of Education; Department of State Revenue.

Local Agencies Affected: School Corporations.

Information Sources: Department of Education Databases. OFMA Income Tax database, 2002.

Fiscal Analyst: Chuck Mayfield, 317-232-4825; Jim Landers, 317-232-9869.